

COLUMBIA FALLS ALUMINUM COMPANY
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August 24, 1990

Corporate Secretary
Atlantic Richfield Company
Los Angeles, California 90071

Re: Indemnification of Columbia Falls Aluminum Company

Gentlemen:

Pursuant to the terms and conditions of Article X, 10(a) of the Acquisition Agreement dated September 10, 1985, entered into between Montana Aluminum Investors Company (MAIC) and the Atlantic Richfield Company (ARCO) in connection with the acquisition of the Columbia Falls Aluminum Company (CFAC), we are hereby advising you and making a claim for damages, losses, and out-of-pocket expenses (including attorney fees) caused by or arising out of the Columbia Falls Aluminum Reduction Facility resulting from events or conditions in existence prior to September 10, 1985 relating to environmental hazards which have been identified at the plant site in Columbia Falls. The following list of identified environmental risks or hazards is intended to supplement previous correspondence directed to you between the date of the acquisition of the property and this date. For convenience, wherever possible, we are referring in this letter to specific sites at the Columbia Falls facility.

1. Groundwater Contamination. The U.S. Environmental Protection Agency study (Exhibit A attached) conducted under contract by Ecology and Environment, Inc., has demonstrated that elevated levels of cyanide and fluoride are present in groundwater on the site. These levels of cyanide and fluoride have resulted primarily from practices that were discontinued prior to September 10, 1985, such as use of unlined sludge ponds and unlined landfills for the disposal of plant waste and rinsing of spent potliners before removal. No current sources of cyanide or fluoride to groundwater have been identified by CFAC's management or its consultants. ARCO has a continuing liability for groundwater contamination resulting from practices which occurred prior to September 10, 1985.

2. Surface Water Contamination. On June 19, 1988, the U.S. EPA study referenced above detected levels of cyanide in the Flathead River. A potential source of this cyanide is the infiltration of groundwater containing cyanide into the surface waters of the river. As in the case of groundwater contamination, the entry of cyanide into the surface water has been the result of practices of ARCO, which introduced cyanide levels into the ground and surface waters prior to September 10, 1985.

3. Potline Visible Emissions. Correspondence received from the State of Montana Health and Environmental Sciences Department and the ESP addresses this issue of visible emissions from the potline roof monitors being in compliance with the 10 percent opacity visible emissions standard applicable to the plant (Exhibit B attached). This standard is applicable to all aluminum reduction plants built in the State of Montana before February 26, 1982. As the owner and operator of the plant prior to September 10, 1985, ARCO remains liable for any violation of the potline visible emissions standard prior to the date of acquisition.

4. Arrcom Corporation, Rathdrum, Idaho Disposal Site. On August 18, 1988 CFAC was notified by the Environmental Protection Agency of a release of hazardous substances at Arrcom Corporation's Rathdrum, Idaho hazardous waste disposal site (Exhibit C attached). CFAC was included in the list of potentially responsible parties (PRP's) in a CERCLA cleanup action as a result of the disposal of spent solvents at the site in a period from 1981 - 1984, prior to the acquisition of CFAC by MAIC. Since the solvents were shipped during the time period that ARCO owned the Columbia Falls facility, any liability associated with PRP status is a liability of ARCO.

5. Closed Scrubber Sludge Pond. Calcium fluoride wastes from the potline wet scrubbers were deposited in the scrubber sludge pond until it was closed in 1979. This pond is a continuing potential source of fluoride in groundwater.

6. Closed Sanitary Landfill. The sanitary landfill located north of the closed sludge pond received spent potliners and solvent wastes, along with sanitary wastes, until it was closed in 1980. The landfill is a continuing potential source of cyanide and fluoride in groundwater.

7. Closed Spent Potliner Landfill. The spent potliner landfill located adjacent to and east of the closed sludge pond received spent potliners until it was closed in 1980. The landfill is a continuing potential source of cyanide and fluoride in groundwater.

8. PCBs. Numerous transformers and capacitors are operated as part of the plant's power distribution system. Some of these reportedly "contain" PCBs above 500 ppm and other are reportedly PCB "contaminate" with levels ranging from 50 to 500 ppm. Additional transformers, above-ground storage tanks, and underground piped distribution systems reportedly contain transformer oil with PCBs at less than 50 ppm. No significant PCB releases have been identified to date and the current management of CFAC has established a program to remove the PCB containing and contaminated transformers and capacitors. However, in the event significant future contamination is identified, such as a leak in the underground distribution system, ARCO has a continuing liability because and to the extent the electrical system with PCBs were operated before September 10, 1985.

9. South Percolation Ponds. Cyanide, fluoride and organic compounds have been detected in the water and/or sediments of the south percolation ponds. ARCO remains liable for practices followed prior to September 10, 1985 which resulted in the discharge of cyanide, fluoride and organic compounds into the south percolation pond. ARCO also remains liable for related groundwater contamination discussed below which resulted in the entrance of cyanide and fluoride into the south percolation ponds.

10. North Percolation Pond. Significant concentrations of cyanide, fluoride and organic compounds have been detected in surface water and sediment samples from the north percolation pond. Elevated levels of cyanide in the pond were caused primarily from the discharge of spent potliners soak water to the pond, a practice which was discontinued in early 1977. Subsequent to that time until the date of acquisition, ARCO was responsible for the discharge of contact cooling water and scrubber waste from the paste plant which is contributing organic compounds (coal tar pitch) to the pond. In addition, ARCO is responsible for storm water drainage discharged into the pond which contributed waste constituents, and may have resulted from fuel, oil or chemical spills around the plant.


11. Underground Storage Tanks. Several underground storage tanks are located on the CFAC property which have been in use both prior to and subsequent to the acquisition of CFAC by MAIC. On at least one occasion since acquisition of the property, the current management of CFAC has detected diesel residues in the soil underneath storage tanks. Soil containing diesel fuel contaminants was removed from the ground and disposed of at the on-site Class 1 landfill. Likewise, diesel fuel contaminants have been found at the diesel pump station where the plant switch engine was refueled.

12. Class 1 Landfill. Spent potliners have been disposed of in the Class 1 Landfill on-site from approximately 1980 until the acquisition, September 10, 1985. This landfill is equipped with a liner, leachate collection system and two-lined leachate collection ponds. Although there presently is no indication of landfill or pond leakage, in the event future leakage is identified, ARCO may have a continuing liability because the landfill contains spent potliners from before 1985.

In the case of items 4 through 7 listed above, any environmental degradation or contamination is exclusively the result of practices which occurred at the plant prior to September 10, 1985. CFAC claims and asserts that ARCO is solely liable for any environmental degradation or contamination related to these items. In the case of items 1 through 3 and 8 through 12 identified above, certain of the practices discussed in relation to those items occurred prior to the acquisition date of September 10, 1985, and did or may have continued after that date. In the case of these instances, CFAC claims and asserts that ARCO is primarily liable for any environmental contamination or degradation related thereto, but acknowledges that both ARCO and CFAC may be Potentially Responsible Parties. With respect to the each of the 12 categories identified above, CFAC claims and asserts that ARCO is required to indemnify CFAC with respect to the liabilities and obligations identified herein for practices of ARCO and its subsidiaries and affiliates prior to September 10, 1985; and, CFAC hereby makes claim for indemnification by ARCO against any liabilities or obligations related to the contamination or environmental degradation related to such practices identified herein.

Yours very truly,

COLUMBIA FALLS ALUMINUM COMPANY

By 

Brack Duker, Chairman of the Board

cc: John R. Lucas